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TAXATION AND INCENTIVES

by William Henry Chamberlin

Now that final word on the proposed Excess Profits tax measure has been postponed, at least until after the elections, a warning against overtaxation may serve the national interest.

Overtaxation is one of the most easily discernible causes of the collapse of civilizations and of revolutions. In many countries, and under most varied political, economic and social conditions, one finds a tendency on the part of governments to squeeze as much as possible out of the people under their rule. When the exactions become unbearable or when the squeezing process is carried so far that there is no more sap to be extracted the stage is set for revolt or social collapse.

Modern investigators of the subject, notably the great Russian scholar, Michael Rostovtzeff, are inclined to emphasize economic reasons for the decline and fall of the Roman Empire. One of these causes was the tendency of the centralized empire to suck up the productive wealth of the people for the maintenance of an expensive court, a vast bureaucracy and a more and more exacting mercenary army. What this meant, in terms of social and economic deterioration, is set forth vividly in the following excerpts from George Finlay's Greece Under the Romans:

> "At last the whole wealth of the empire was drawn into the imperial treasury; fruit trees were cut down, and free men were sold to pay taxes; vineyards were rooted out, and buildings were destroyed to escape taxation. . . . The increase of the public burdens at last proceeded so far that every year brought with it a failure in the taxes of some province, and consequently the confiscation of the private property of the wealthiest citizens of the insolvent district, until at last all the rich proprietors were ruined."

It is not surprising that people living under such extortion lost much of their will to fight, and that the empire gradually melted away before the inroads of the Germanic tribes in the West and, later, before the Mohammedan onslaughts in the East.

The same phenomenon is repeated against other historical backgrounds. The exactions of the tax collectors in medieval Russia were so severe that people became serfs voluntarily so that the owners would be responsible for the taxes. This led to an edict forbidding the practice on pain of a flogging with the dreaded knout.

The philosophical Russian historian, V. O. Kluchevsky, observes that the kind of freedom which could only be preserved by fear of the

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knout was not worth much, and also offers the following pungent comment on the spirit of this period in his country's history:

> "The Muscovite State was formed slowly and painfully. We now can scarcely understand and still less feel what sacrifices of the people's welfare it cost, how it pressed down on the existence of the individual."

Kluchevsky, of course, wrote before the Russian Revolution. He had no opportunity to observe how the Soviet regime "pressed down on the existence of the individual".

Resistance to what was considered illegal taxation was the starting point of both the British Civil War in the Seventeenth Century and the American Revolution in the Eighteenth. And the convocation of the states-general, the beginning of the French Revolution, was the result of the virtual bankruptcy of the French State.

II

Sheer collapse as a result of overtaxation is perhaps not an imminent possibility today. But there is hardly any country where the level of taxation has not gone far beyond what would have been considered bearable in the Nineteenth Century.

The American taxpayer, struggling with the combined exactions of his Federal and state income taxes (with perhaps a municipal tax thrown in for good measure) may remember with heartfelt gratitude the Justices of the Supreme Court who for many years staved off the imposition of this levy as un-Constitutional. As usually happens with new imposts, the Federal income tax has gone far beyond the limits which were regarded as normal and probable when it was imposed, following a Constitutional amendment, before the First World War.

Some idea of how the burden of taxation has increased for the American citizen as a result of the Second World War is conveyed by the following comparative figures (in millions of dollars):

	1939	1948
Federal	4,900	41,550
State	3,387	7,791
Local	5,309	6,600

Obviously the increase in Federal taxation has gone far beyond the growth either in national income or in wages and salaries. The Federal, state and local authorities are now taking in taxation about 25 per cent of the national income.

The situation has developed much further in Great Britain, where it is estimated that about 40 per cent of the people's earnings must be turned over to tax collectors. Direct taxation is much heavier than in

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the United States. Indirect taxation is also extremely high. When it was time for after-dinner drinks and cigarettes in a London Club last summer I was struck by the number of pounds which were paid out for very modest amounts of alcohol and nicotine. The explanation was that the "purchase tax", a national sales tax which applies to many articles besides liquor and tobacco, is very high.

British taxpayers must look back as to Shangri-La to Britain in the 1850s. At that time Mr. Gladstone was setting the income tax rate at seven pence in the pound (about 2-1/2 per cent).

III

There is a general impression in Great Britain that the present level of taxation acts as a disincentive, and discourages enterprise, initiative and hard work. Certainly the tax levies are so heavy in the upper brackets that a raise in salary would offer little inducement to undertake great responsibilities.

And the tax collector's bite reaches far down into the lower brackets. The manual worker, unaccustomed to paying taxes in the past, is sometimes more tax conscious than the business or professional man. If he finds that a large part of the extra pay for overtime must go for taxes his impulse is to skip the overtime and go to the football game.

Insofar as heavy taxation is a discouragement to maximum production it is economically self-defeating. It raises the prospect of a vicious circle: productivity and efficiency declining under a load of ever-increasing taxation.

How far is the American tax burden a disincentive? This important question is examined coolly and scientifically in Taxes and Economic Incentives, by Lewis H. Kimmel. (Washington: The Brookings Institution. $2.50.) This is a study, based largely on the reactions of taxpayers, of the incidence of the more important forms of taxation (personal and corporate income taxes, property taxes, excise levies, etc.) and of the psychological effect on the people who pay these taxes. The summarized conclusion of this study, backed up by a large amount of supporting material, is as follows:

> "A balanced tax system will give due consideration to the citizen in his several roles of producer, consumer and investor. It should not consciously discriminate against any of the three roles. An intelligent tax policy will recognize that the interest of the average person in production is roughly equal to his concern with consumption. It will also recognize that the great majority of the people are investors, either directly or indirectly. Such a tax structure would permit the maximum release of economic power within the private sector of the economy."

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The Brookings investigation illuminates various aspects of our tax structure. It might well serve as a basis for a re-examination of the entire Federal revenue structure, with a view to providing maximum individual incentives compatible with the financial needs of the Government in a period when the temperature of the conflict with the Soviet Union has risen from cold to lukewarm.

The author expresses the belief that incentives to work and invest may be seriously affected when more than half of one's income is taken by income taxes. Fifty per cent represents a significant breaking point for many people. Therefore reduction of the top-bracket rate (now over 82 per cent) to 65 per cent, with 50 per cent as an ultimate goal, is recommended.

The study finds that the capacity to save at a given income level has been sharply reduced and estimates that in the period 1946-49 between one fourth and two fifths of personal income taxes were paid at the expense of savings. This, the author says, exercises a profound effect upon what is still, in theory, an individualist economic system: for "individuals most able to assume the risks of venturesome undertakings are the most likely to be deterred by present tax rates".

Small and moderate-sized firms which hope to expand from earnings are seriously affected by the corporate income tax, according to Mr. Kimmel. The professed Congressional concern for small business might have been more practically expressed by lowering the corporate income tax than by launching investigations of dubious value into "monopoly".

The investigation shows that work incentives of wage earners are not materially influenced by taxes. The contrast to the situation in Great Britain is explained by the fact that taxation in the lower brackets is less severe in this country, and the variety of goods which the wage earner can purchase is much greater. Sales and excise taxes, according to Mr. Kimmel, have less effect on incentive than income taxes and should not be sharply reduced.

This is an excellent introduction to a subject which affects the American individualist economy much more than is generally realized. There is little likelihood that the American people will consciously vote for a Socialist program. But they could make some kind of Socialism inevitable by making individualism unworkable through unwise taxation policies which kill incentives and dry up sources of new working capital.

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Not Merely Gossip *A Supplement to* Human Events Vol. VII, No. 37

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By Frank C. Hanighen September 13, 1950

THE PURGE: The firing of Secretary of Defense Johnson, and his replacement by General Marshall, constitutes a big victory for the Fair Dealers in the Democratic Party. As we pointed out at the time, the Fair Deal intrigue -- with backing of the usual collaborationists in the press -- began, immediately, with the triple objective of ousting a Cabinet member who did not take their orders, of replacing him with one of their own, and of thereby protecting their highly vulnerable puppet, Acheson. The first and third targets have been brilliantly achieved.

But is Marshall one of the Fair Deal's "own"? If Congress provides the proper legislation and Marshall becomes Secretary of Defense, his appointments will be scrutinized to provide the answer. At present, all evidence available suggests that the triumphant Leftist camarilla has obtained a pliable figure. Marshall was probably the most important agent in destroying the Nationalist regime in China, and this Marshall achievement prepared the way for the Soviet onslaught on Korea. In his Asiatic policy, Marshall slavishly followed the advice of the Far Eastern Division of the State Department, whose pro-Communist proclivities led the Scripps-Howard press to describe it as the "Red Cell". As for the General's famous plan for containing Communism in Europe, see Edna Lonigan's piece, Re-examination of the Marshall Plan (HUMAN EVENTS, August 30). If the Fair Deal camarilla finds Marshall a disappointment, we shall be very surprised.

It remains to be seen whether the Opposition in Congress fulfills its role as an opposition to the legislation to permit Marshall to fill the post. The GOP record is not promising. Many of its members fell right in with the maneuver of the Fair Deal to oust Johnson and preserve Acheson. Since the GOP has chosen to fight its Congressional campaign on the record of the Administration in the Far East, it is decidedly "on the spot". How can it accept Marshall and carry on its campaign against Administration policy in the Far East?

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MILITARY SITUATION: While the fighting in Korea shows no decisive trend one way or the other this week, interest in the Capital has shifted to that potential "Korea" -- Germany. Halfway measures, and wishful-thinking oratory constitute the exertions aimed professedly at heading off the danger to West Germany. General Mark Clark announced the decision to send more U.S. troops to the Occupation zones. But when? He became vague. Nor has anyone suggested an answer to the query -- Where are we going to get those troops, with Korea sucking up our trained military man power? One conclusion with bearing on the future of American business can be drawn: places like Germany and Korea (and next, Indo-China?) will cause a shortage of man power in the American Labor market, and push the inflation process forward.

The gush of concern about Germany (not for Germany, or the Germans) suggests that there's more going on there than reaches the public prints. Indeed, private reports which we receive from the Reich reflect great apprehension among American observers there.

Thus, a letter from Germany quotes the opinion of a German industrialist that German Labor will turn Communist the moment Russia makes a move westward. He discounts the fact that German Labor leaders are anti-Communist, and emphasizes the infiltration of Communist agents among workers who still think in terms of the class-struggle. This view fits in with another, from an American observer who says: "I believe that the organization of the Commie cells in Western Europe goes very far.

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I actually believe that the German Commies have infiltrated everywhere -- partly with American aid; for in the beginning of the Occupation when everyone was a 'good' German who had ever been in a concentration camp, we put Commies into key positions, let them run radio stations and newspapers, put them into industrial plants and city councils, etc. Some of them stayed. Others have infiltrated by posing as anti-Comunists and will reveal themselves as Communists only when The Day has come."

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UP IN NEW YORK: Last week on a visit to Manhattan, we discovered that confusion is not confined to Washington. A retailer friend spoke passionately about the confusion in the merchandising world since the Korean war started. One phrase captured our notice -- "Markup on a markdown". As our friend explained it, retailers realize that the goods they're selling today probably cannot be replaced later at the present retail selling price -- as inflation proceeds. Yet they are trying to eat their cake and have it too. "Today", our friend remarked, "certain items are offered at 'sales prices', but are actually priced at more money than they were in May and June. These phony sales prices now are based on what their merchandise will have to bring later in the fall. That's what we call a 'markup on a markdown'."

Another businessman was angry about what he thinks is a reappearance of the "five percenters" in Washington. He claims his plant has been slighted in receiving contracts from the Defense Department and competitors favored. With very natural suspicion, he leaps to the conclusion that those enjoying orders have employed high-priced Washington agents.

We did not notice it, but we were told it is not popular to be seen reading the Daily Worker. A friend who is an ardent anti-Communist used to pick up the Communist organ and read it in subways, to study the "line" of the day. Not any more! Recently he has been getting dark looks from other passengers, and he fears some ugly incident.

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COMMUNISM IN AGRICULTURE: Senator Bridges launched an attack on the Farmers Union in a well-documented speech (September 7, Congressional Record) which got scant publicity in Eastern newspapers. Last spring, on April 5, in an item "Communists in Farm Movements" we foreshadowed this Senatorial assault on an organization whose performances had for long aroused suspicion. Bridges' speech was an earnest and painstaking effort to expose the Communist conspiracy in a field where its activities have gone far without public realization. The speech also offers evidence of Communist influence which helped to shape the brazen Brannan Plan. With abundant documentation, Bridges traces the story from the early New Deal days when Fred Ware planted the first Communist Party cell in the Department of Agriculture, through the infiltration of the Farmers Union, down to the unveiling of the Brannan Plan. It is noteworthy that fellow travellers in the Farmers Union press foreshadowed the outlines of the Secretary of Agriculture's "collectivization" scheme some weeks before he went before Congress with it.

One amazing aspect of the Bridges speech is that neither in the halls of Congress nor elsewhere has the exposure of the Farmers Union been attempted until now. Bridges made the point that while Labor -- specifically the CIO -- has tried to clean house, its opposite number in the farm organization field, the Farmers Union, not only has never moved to purge the Communists in its outfit, but has actually purged anti-Communists.

Two aspects of the Bridges speech interest us. The New Hampshire Senator made his attack on Secretary of Agriculture Brannan and his friends of the Farmers Union in the same week that Senator Schoeppel brought forth evidence unfavorable to Secretary of Interior Chapman. It is well known that the two Cabinet members are close friends and both members of the Left Wing in Government. The second point is this:

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that the Bridges speech was delayed several months. It was ready to break in June, but various Midwestern GOP Senators, up for re-election, urged that it should not be given. They feared repercussions against themselves from Farmers Union members in their states. The fact that the speech now comes out is an indication that Midwest GOP candidates now feel confident of re-election.

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WAR ON THE FIFTH COLUMN: Edna Lonigan reports from Capitol Hill -- Obviously the task of demobilizing the fifth column takes first priority over other military measures, because every dollar that is spent for war, and every life that is sacrificed, will be wasted if the Soviet leaders are able to gather in the harvest by their armies in our midst. The military purpose of the fifth column is to weave the separate strands of the net which the Soviet leaders will draw together to trap us for the kill. The fish may swim about freely for some time after the net is drawing tighter. If he does not learn that the thin, almost invisible threads mean imprisonment and death; if he does not find the openings that still mean liberty, it is just a question of time until the mouth of the net is closed and then all his struggles will be in vain. Last week was a critical week on many counts in the effort to bring to light the manifold activities of the fifth column in our midst.

President Truman has twice ranged himself with those who refuse to protect our country against the Soviet Union's strongest arm, by his veto of a bill to refuse citizenship to those who, to quote the Washington Post, "may seek covertly to overthrow the Government through association with the Communist front organizations" and his threat to veto the McCarran bill. If the President can be prevented from understanding the military danger from the "fronts" then attempts to defeat the fifth column will be difficult indeed.

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THE DEBATE ON SUBVERSIVE LEGISLATION: Miss Lonigan continues -- An anti-subversive bill has just been passed, and awaits the President's signature, veto or pocket veto. It might be useful to examine the Senate's wrangles over the legislation, just to study the tactics involved. To begin with, the McCarran bill has most of the features of the Mundt-Nixon bill, and the latter was carefully designed to bring the Communist fifth column into the open; but at the same time it had been subjected to the most rigid analysis by experts in Constitutional law. The latter worked out safeguards for impartial decision on the question of whether a particular organization was in fact a "front". To this were added some other provisions.

When the McCarran proposal had passed the House and was assured of passage by the Senate, it was suddenly confronted with an Administration bill sponsored by Senator Kilgore. His bill ignored the danger from Communist "fronts" entirely, and provided for concentration camps in which known Party members would be incarcerated in an emergency. Those who have been open Party members since 1949 are obviously of no importance in the secret work carried on by the Politburo on our soil. The Kilgore measure was finally added to the whole McCarran bill. But, its offering as a substitute recalls the well-known Communist tactic of opposing controls on Reds by making a measure more severe than it need be, to create a reaction against all controls. This method of course worked brilliantly in the so-called Loyalty program.

Fortunately, in the showdown the Senate apparently was not deceived by these diversionary tactics. Senators must have realized that the Communist fifth column has been using the "fronts" as camouflage for the last 15 years. The fronts are to the fifth column what camouflage is to tanks in Korea. To argue that we should detain known Communists and ignore the fronts is like saying that our fighting forces in Korea should shoot only at tanks that are not camouflaged, but deal tenderly with those hidden by vines or branches.

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Book Events

The Economic Role of the State, by William A. Orton. Chicago: University of Chicago Press. $3.00. Reviewed by Frank Chodorov.

Does the State have an economic role? You read this colloquy -- as Mr. Orton calls his book -- with the hope of getting a definite answer to the perplexing question. But, alas, you come away disappointed. You go back to the passages you have underlined and find this to be the nearest thing to concreteness: "We give the State a monopoly of coercion in order to get rid of coercion; and we put justice, equity and compassion above wealth, power and prosperity as the supreme ends of policy, not only because our tradition so teaches, but because we get a larger measure of voluntary assent to these ends if we try."

So that, if the State's intervention in the economic affairs of men is delimited by "justice, equity and compassion" it has properly used its monopoly of coercion. To elucidate this concept, Mr. Orton calls upon the "two broad categories of justice" developed by economic thinkers who take their cue from the Papal encyclical Quadragesimo anno; the categories are called "distributive justice" and "commutative justice". The derivative of these categories is the thought contained in the following from the encyclical: "Of its very nature the true aim of all social activity should be to help individual members of the social body, but never to destroy them. The aim of social legislation should be the re-establishment of social groups."

What we have here is a restatement of the pater familias concept of the State -- with the decentralization of industry as one of its aims. Putting aside this second objective, how does this concept differ from the excuse for Socialism, the Welfare State or any other collectivistic venture? Does it not assume, a priori and in complete disregard of the history of the State, that it can be an instrument for social good? Says Mr. Orton: "Let us remember that, though we give to the State a monopoly of coercion, we do not therefore endow it with a monopoly of valuations. It is only one among the many agencies through which the goals and purposes of human life are brought to fulfillment. When it acts in its proper sphere with its proper authority, it does so because we have decided that for the particular purpose in view it is the most suitable agency. . . . And the 'we' in this decision is not a mere numerical majority (which may represent nothing higher than a clique of vested interests) but a moral consensus."

That is as broad as it is long. In his comments on several economic problems which the State is called upon to solve -- such as labor-management controversy, minimum wage laws, public health and education -- Mr. Orton hints at the valuations the State is competent to make. But, even here, he points out, there is a tendency for the State to step out of bounds, to abandon the "moral consensus" for considerations of profit. The reader is left without answer when he asks for a definition of the "moral consensus" by which the economic role of the State should be delimited. To be blunt about it, the question resolves itself into this: How much Socialism is "good" Socialism? Distributive justice does not answer.

When you start with the assumption, as does this book, that the State can play an economic role you must be hazy in your conclusions; for your premise is in the field of fantasy. You assume that there is a State, a personal entity, independent of the politicians who comprise it; or, perhaps, that it can be manned by archangels, free from all personal frailties. You assume that it is possible for these politicians not to use the "monopoly of coercion" to advance their own fortunes or those of supporting pressure groups. You assume that the "monopoly of coercion" is capable of self-restraint. You assume that it has knowledge of and will heed a "moral consensus". You assume anything your heart desires.

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